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Recommendations of the Board of Auditors

UNDP: Update on the report on implementation of the recommendations of the Board of Auditors for the biennium 2002-2003

Report of the Administrator

Summary

The present document contains an account of the steps being taken by UNDP to address the recommendations raised by the United Nations Board of Auditors and supplements the information in document DP/2005/11.

Elements of a decision

In taking note of the present report, the Executive Board may wish to note the considerable progress that has been made since the preparation of the original paper on this matter (DP/2005/11) in October 2004.

04-66505 (E)

Annex

Response to the United Nations Board of Auditors report on the accounts of the United Nations Development Programme (UNDP) for the biennium ended 31 December 2003

Paragraph 33

1. *Recommendation*. The Board recommends that UNDP complete the adjustment process of all non-expendable equipment records at country offices to bring the value in line with the revised non-expendable policy.

2. *UNDP response*. UNDP has taken action to ensure that country offices and other offices away from headquarters amend their inventory records to reflect only items with values of $1 000 or more and to document the adjustments made, the process for which it expects to have completed by October 2004. This item is being followed up by the Director, Administration Services Division (ASD).

3. ***Update*. Adjustments to the values of $1 000 or more were completed at the end of October 2004.**

Paragraph 36

4. *Recommendation*. UNDP agreed with the Board recommendation that it update its inventory records on a regular basis to ensure that all additions and disposals are accounted for.

5. *UNDP response*. UNDP informed the Board that the newly implemented Atlas system would address this weakness. All non-expendable equipment items acquired by headquarters since January 2004 have been capitalized in the assets module of Atlas. Training guides on the assets module were already provided to country offices. Country offices also continue to capitalize non-expendable items procured in 2004 in the assets module.

6. ***Update*. Additional training guides were provided to country offices on 1 December 2004.**

Paragraph 40

7. *Recommendation*. UNDP agreed with the Board recommendation that it implement measures to ensure that country offices comply with the financial regulations and rules and other directives in respect of inventory control.

8. *UNDP response*. UNDP issued a directive in mid-July 2004 to all country offices and other offices away from headquarters on the issue of compliance with financial regulations and rules with respect to inventory control. This item is being followed up by the Director, ASD.

9. *Update*. The most recent directive was issued to resident representatives on 1 December 2004 highlighting the key findings and recommendations of the Board of Auditors and emphasized the requirement to conduct a 2004 physical inventory exercise to validate and verify the inventory data in Atlas, and to ensure that purchases and disposals of non-expendable property items are continuously updated to ensure their completeness.

Paragraph 70

10. *Recommendation*. The Board reiterates it previous recommendation that UNDP: (a) ensure that all organizational units review unliquidated obligations on a monthly basis and provide the required certification of valid obligations in a timely manner; and (b) follow up on any differences in unliquidated obligations reported by organizational units and make the necessary adjustments to the financial records.

11. *UNDP response*. The encumbrance accounting facility functionality was migrated to production in the third quarter of 2004. Once the functionality is fully operational, UNDP will have the ability to monitor and ensure that all organizational units close no-longer-needed obligations, provide written confirmations of unliquidated obligations and make the necessary adjustments to the financial records.

12. *Update*. The encumbrance accounting facility functionality allows for the upload of data to the general ledger. In addition UNDP, within the purchase order module, has the ability to monitor obligations and make adjustments to the financial records.

13. Guidelines on how to monitor and review unliquidated obligations have been issued by the Comptroller's Office as part of the 2004 Year End Closing Instructions. Country offices can access Atlas to run query and track outstanding cases.

Paragraph 73

14. *Recommendation*. UNDP agreed with the reiterated recommendation by the Board to review regularly the complete ageing of accounts receivable with the view to collecting long-outstanding amounts.

15. *UNDP response*. UNDP informed the Board that the Atlas system would make it easier to analyze regularly the accounts receivable data, verify the ageing of outstanding items on a worldwide basis and follow up long outstanding items.

16. *Update*. In line with the current focus on 2004 year-end closing, a financial data quality dashboard was implemented in November 2004 to track (among other items) unapplied income at the country offices in Atlas.

17. Furthermore, a customized report for ageing national execution advances has been developed and user acceptance of the report will take place early in 2005 with the plan to put it into production shortly thereafter.

Paragraph 114

18. *Recommendation.* UNDP agreed with the reiterated recommendation by the Board to: (a) quantify the financial effect of qualified audit opinions on nationally executed expenditure; and (b) evaluate such qualifications against the action plans for reasonableness.

19. *UNDP response.* The technical guidelines 'Specimen terms of reference for audits of national execution or non-governmental organizations' will be revised by the Office for Audit and Performance Review (OAPR) by the end of 2004 to clarify these requirements and address inconsistencies.

20. ***Update.*** **The specimen terms of reference was revised in November 2004.**

Paragraph 118

21. *Recommendation.* UNDP agreed with the Board recommendation that it compile a comprehensive information and communication technology (ICT) strategy that addresses the short, medium and long-term objectives, risks and constraints.

22. *UNDP response.* The ICT strategy for 2004-2005 has been issued. Risk management is integral to the execution of this strategy. Effective 1 October 2004, UNDP has appointed a chief information security officer who will oversee improvements to the ICT security environment.

23. ***Update.*** **Current ICT security risk management initiatives include: (a) establishing a risk assessment methodology to identify, evaluate and minimize risks to Atlas and other UNDP supported systems; (b) completing internal and external assessment of Atlas controls to determine areas of risk (external assessment is in conjunction with OAPR).**

Paragraph 122

24. *Recommendation.* UNDP agreed with the Board recommendation that it consider the benefits of adopting international standards and best practices to be applied to its information and communication technology environment.

25. *UNDP response.* UNDP informed the Board that the Office of Information Systems and Technology (OIST) is considering appropriate international standards in the context of stabilizing implementation of the Atlas system.

26. ***Update.*** **UNDP has in the interim acquired the Information Technology Infrastructure Library (ITIL) Toolkit and is using it as a reference point in reviewing the work of the Change Control Board. Further use of the toolkit is expected in 2005.**

27. It is part of the contract with Unisys/Corio for the provisioning of disaster recovery services within 24 hours with no more than a four-hour data loss. In addition, OIST is validating the disaster recovery environment and the refresh

procedure at Unisys/Corio, and plans to stress test this environment during the next PeopleTools 8.45 upgrade, planned for the first quarter 2005.

Paragraph 144

28. *Recommendation.* **UNDP agreed with the Board recommendations that it: (a) update the data conversion strategy to reflect all decisions taken and communicate the various decisions appropriately; (b) finalize the implementation plan of the Enterprise Performance Management data warehouse as soon as possible; and (c) task its internal audit section to verify the validity and accuracy of the journals to be posted as a result of the data clean up.**

29. *UNDP response.* **UNDP is considering Enterprise Performance Management (EPM) functionality in its planning for wave 2 and will prioritize EPM relative to other wave 2 proposals. The verification of human resource and finance data is possible in the current system and will be reflected in the EPM when the data are migrated there. The data from the following legacy systems have already been archived in the EPM environment: the Project Financial Management System, Financial Information Management, the Integrated Management Information System, Hyperion, the Financial Statement Analysis and Reporting System and the Windows Field Office Accounting System.**

30. **In October 2004, OAPR completed a special audit that reviewed the validity and accuracy of the data clean up.**

31. ***Update.* An Atlas Data Quality Dashboard was released to identify Data Quality Issues and a separate plan was prepared to address these issues.**

Paragraph 150

32. *Recommendation.* **UNDP agreed with the Board recommendation that it establish minimum standard requirements against which to measure the response time to res 've problem cases.**

33. *UNDP response.* **The Atlas Service Centre management guide, with service level agreements, was drafted and published in March 2004. As the helpdesk function is currently under the prerogative of the Centre for Business Solutions (CBS) with effect from September 2004, the overall user support strategy, including the service level agreements, will be reviewed and is expected to be formalized before the end of December 2004.**

34. ***Update.* The Atlas User and Management Support strategy has been recently reviewed in light of the new mandate for CBS. Follow-up action plans include a review of the staffing structure and escalating procedures for response time to resolve problem cases. The review is expected to be completed in the first quarter of 2005.**

Paragraph 157

35. *Recommendation.* UNDP agreed with the Board recommendation that it perform an independent, comprehensive, post-implementation evaluation review of the set-up and effectiveness of the built-in controls of the Atlas system as soon as possible.

36. *UNDP response.* A draft terms of reference has been prepared and UNDP hopes to initiate the review by mid November 2004.

37. *Update.* An Atlas Post-Implementation Risk Assessment Request for Proposal (RFP) was issued by OAPR in November 2004. Upon selection of the successful bidder, the risk assessment will begin in early 2005.

Paragraph 160

38. *Recommendation.* UNDP agreed with the Board recommendation that it compile, approve and disseminate to all staff an overall internal control framework that covers all modules of Atlas as a matter of priority.

39. *UNDP response.* The draft internal framework for UNDP offices was completed in October 2004. It will be circulated to the UNDP management practice network for final comments and will then become policy.

40. *Update.* The draft internal control framework has been circulated to the UNDP Management Practice Network for comments. The comments being received are being reviewed and, where appropriate, incorporated into the final internal control framework document expected to be issued in the first quarter of 2005.

Paragraph 168

41. *Recommendation.* UNDP agreed with the Board recommendation that it intensify its effort to resolve the limitations on the general ledger module as a matter of priority.

42. *UNDP response.* UNDP has intensified efforts to fully populate the general ledger. Completion is expected by the end of the fourth quarter.

43. Transactions processed in sub-modules (Treasury, accounts payable and accounts receivable), are being posted to the general ledger. Furthermore, 2003 year-end balances have been uploaded to the general ledger.

44. In addition, key interfaces from global payroll and IMIS payroll have been developed and moved into production. The IMIS payroll interface (phase 2), covering items such as income tax, education grant, and monthly payment orders, is expected to be finalized before the end of the year.

45. The interface between the SAP AG company (Germany) and Atlas is being tested by the development team. It is expected to be released for User Acceptance

Testing (UAT) during the last week of October and should move into production in early November.

46. *Update*. The general ledger is expected to be populated in time to close the books and records for 2004.

47. After user-acceptance testing, the SAP/Atlas interface was moved into production in December 2004.

Paragraph 189

48. *Recommendation*. UNDP agreed with the Board recommendation that it conduct regular internal audits to monitor adherence to UNDP financial regulations and rules and to assess internal controls, especially during the initial implementation phases of Atlas.

49. *UNDP response*. OAPR has commented extensively on the proposed reports to be generated by the Atlas system. Regarding the impact of Atlas on the audit and investigation functions, OAPR scheduled internal training for staff in September 2004, focusing on extracting and analyzing reports from the system. By late September, the country office audit approach will be revised to incorporate a review of internal controls in connection with the implementation of the Atlas system, with testing scheduled for November.

50. *Update*. Internal audits conducted in 2004 included reviews of the offices' implementation of Atlas, including assessments of internal controls. However, the planned revision of the country office audit guide was postponed pending finalization of the internal control framework.

Paragraph 193

51. *Recommendation*. UNDP agreed with the Board recommendation that it expedite its efforts to develop and put into operation all exception/monitoring reports.

52. *UNDP response*. A total of 17 audit exception reports have been identified by OAPR. The requirement specification documents are currently being developed. The plan is to implement the audit exception report before the end of December 2004, based on an agreed rollout plan.

53. *Update*. The Management Review and Oversight Committee (MROC) met in November 2004 and discussed a proposal for revising the membership and terms of reference.

Paragraph 204

54. *Recommendation*. The Board recommends that UNDP allocate resources urgently to resolve the shortcomings identified with Atlas as soon as possible, especially those classified as critical.

55. *UNDP response*. The Change Control Board (CCB) currently comprising technical, business representatives from UNDP, UNFPA and UNOPS, continues to be the competent body responsible for reviewing all application change requests and production issues in connection with Atlas modules. Resource issues continue to be prioritized at the CCB, with cross-harmonization issues being forwarded to the Tri-Lateral Advisory Panel (TAP) for further deliberation. Eight application releases (R1.1 to R1.8 have been completed to date).

56. ***Update*. In addition to the above referenced releases, releases R.2.1 to R.2.2. have been completed, bringing the total to 10.**

Paragraph 216

57. *Recommendation*. UNDP agreed with the Board recommendation that it: (a) evaluate establishing a risk management function responsible for implementing a risk management strategy at UNDP; and (b) conduct a comprehensive risk assessment exercise.

58. *UNDP response*. UNDP will discuss strategies for an effective risk management function, including a comprehensive risk assessment exercise, at the upcoming meeting of MROC. In parallel, UNDP will continue discussions at the level of the High-level Committee on Management and the finance network concerning a harmonized approach.

59. ***Update*. At its November meeting, MROC reviewed a proposal for a new risk management strategy and will continue to review the development and implementation of the strategy.**

Paragraph 223

60. *Recommendation*. UNDP agreed with the Board recommendation that it expedite filling vacancies within the Office of the Audit and Performance Review.

61. *UNDP response*. A new director has been selected effective 1 November 2004. As for the six programme specialists, recruitment is nearly complete for five of the posts. The sixth will be readvertised as no suitable candidates were identified thus far. Interviews for the quality assurance officer will take place in October.

62. ***Update*. The five programme specialists have been recruited and will take up their posts in early 2005. A large number of applications were received for the quality assurance officer. The shortlisting of applicants will take place in early 2005.**

Paragraph 229

63. *Recommendation*. UNDP agreed with the Board recommendation that it: (a) consider making the Management Review and Oversight Committee part of the panel responsible for the appointment and assessment of the head of the internal

audit department; (b) include evidence of considerations of independence in its working papers prior to the commencement of any audits; (c) ensure that internal audit compiles and implements a three-year strategic plan that addresses the risk management strategy; and (d) ensure that the Management Review and Oversight Committee approve all three-year and annual audit plans and significant amendments thereto before implementation.

64. *UNDP response*. UNDP will provide evidence of independent considerations in working papers and will prepare a three-year strategic plan addressing the risk management strategy, which it will submit to MROC in the last quarter of 2004. UNDP would comply with Institute of Internal Auditors standards as appropriate in this connection.

65. ***Update*. At the request of the new Director, OAPR is reviewing its audit planning methodology to adopt a more formal risk-based approach and, in the context of the review, will ensure that the recommendations are incorporated.**

Paragraph 236

66. *Recommendation*. UNDP agreed with the reiterated recommendation by the Board to revise its programme of internal audit work to include an appropriate level of coverage on financial procedures and controls at headquarters.

67. *UNDP response*. In its audit plan for 2005, OAPR will place a priority on financial procedures and controls. In addition, the audit of a headquarters bureau, to take place in the fourth quarter of 2004, will focus on financial procedures and controls within the unit.

68. ***Update*. The audit at headquarters was postponed until the first quarter of 2005. The audit will focus on financial procedures and controls.**

Paragraph 240

69. *Recommendation*. UNDP agreed with the Board recommendation that it document the reasons for delays in implementing the recommendations of the Office of Audit and Performance Review.

70. *UNDP response*. Effective October 2004, OAPR will document the reasons for delays in the implementation of its recommendations.

71. ***Update*. OAPR is in the process of requesting audit clients to update the implementation status of recommendations. The reasons for delays will be documented.**

Paragraph 246

72. *Recommendation*. UNDP agreed with the Board recommendation that it: (a) determine a standard timeframe for the timely issuance of reports; and

(b) monitor compliance with these standards on a regular basis while documenting and following up the reasons for any significant delays.

73. *UNDP response*. OAPR will take steps by the fourth quarter of 2004 to monitor these requirements and to hold chiefs of the respective audit centres accountable for non-compliance.

74. ***Update.*** **The standard timeframe for issuance of audit reports will be reviewed as part of OAPR review of its audit procedures. Monitoring compliance and following up reasons for delays will be a key responsibility of the quality assurance officer.**

Paragraph 256

75. *Recommendation*. UNDP agreed with the Board recommendation that it: (a) update the current treasury policies and procedures to be in line with best practices, taking into account the restructuring process and the implementation of the Atlas system; and (b) incorporate all management reporting policies and procedures into the treasury policy and procedures.

76. *UNDP response*. The Treasury Policy and Procedures Manual will be updated by end of the first quarter of 2005. The UNDP Investment Committee approved revised, expanded investment guidelines at its meeting on 12 October 2004.

77. ***Update.*** **Treasury Policy and Procedures Manual will be updated by end of the second quarter 2005, owing to staff vacancies that are now being filled.**

Paragraph 267

78. *Recommendation*. UNDP agreed with the Board recommendation that it prepare, monitor and evaluate short-term projected cash flows for all country offices, in each currency and in an improved manner, in order to anticipate future funding or investment requirements.

79. *UNDP response*. Treasury will implement a cash position worksheet tool in 2004, which is embedded in the Atlas cash management module to support over time the preparation, monitoring and evaluation of short-term projected cash flows for most offices and currencies in which UNDP operates. Technical development of the cash position worksheet tool has been completed, and the worksheet is undergoing testing in the follow offices: headquarters, Treasury, the Programme of Assistance to the Palestinian People, and the Afghanistan and Honduras country offices. It is expected to be in production by the end of 2004.

80. ***Update.*** **This report will be in production for headquarters by the end of 2004. It will be rolled out to country offices over the course of 2005.**

Paragraph 279

81. *Recommendation.* UNDP agreed with the Board recommendation that it regularly review computer security and communication controls.

82. *UNDP response.* Treasury will confer internally with OIST in the second half of 2004 on the methodology to be used for such reviews. The Treasurer is responsible for initiating the conference.

83. *Update.* The conference was initiated and the subject has been added to the OIST personnel work plans. A detailed timeline for completion is expected by the end of the first quarter 2005.

Paragraph 285

84. *Recommendation.* The Board recommends that UNDP: (a) formally document and approve policies and procedures for the valuation of foreign exchange, bonds and interest accruals; and (b) include interest accruals in the monthly management reports.

85. *UNDP response.* Treasury will liaise with the Comptroller's Division on the formulation of a policy and procedures statement for the valuation of foreign exchange hedges and bonds, as well as interest accruals during the second half of 2004. Information on interest accruals will be included in monthly management reports to the extent that management finds such information useful. The Treasurer and the Comptroller are jointly responsible for completion.

86. *Update.* Treasury has initiated discussions with external experts as to best practice for valuation of foreign exchange hedges and bonds and has shared this information with the Comptroller. Further discussion and finalization of the policies and procedures will take place in 2005.

Paragraph 288

87. *Recommendation.* UNDP agreed with the Board's recommendation that it generate and review a report of reconciling items between the Treasury Module and the accounting records.

88. *UNDP response.* A query has been designed and will be in production in the fourth quarter of 2004.

89. *Update.* The query developed by the Comptroller's division to validate adjusted bank balances to the General Ledger cash balance includes the reconciliation of the Treasury module transactions.

Paragraph 312

90. *Recommendation.* UNDP agreed with the Board recommendation that it evaluate supplier performance in terms of the guidance provided in the UNDP Procurement Manual.

91. *UNDP response.* Supplier Performance Evaluation, as mentioned in the Procurement Manual, calls for capturing following data:

(a) Actual delivery compared to scheduled delivery;
(b) Quality of goods and services provided;
(c) Accuracy of documentation;
(d) After-sales service; and
(e) Speed of response.

92. The above are part of the 'strategic sourcing' Atlas application that will be implemented during 2005. The preparation of a business case for implementing the above application is under way at the time of writing.

93. *Update.* **The business case has been accepted and the strategic sourcing Atlas application is being implemented during 2005.**

Paragraph 326

94. *Recommendation.* UNDP agreed with the Board recommendation that it: (a) expedite its revision of the special service agreement guidelines; and (b) adhere to the special service agreement guidelines in respect of duration of contracts.

95. *UNDP response.* The review of the draft guidelines has in first instance indicated that a further integration with procurement practices and rules needs to be pursued. This is prompted by the fact that in the Atlas system special service agreement (SSAs) are covered under the procurement module. The Office of Legal and Procurement Services (OLPS) is now updating the text and ensuring harmonization in the above context. A revised draft will be ready for organization-wide review by November 2004.

96. *Update.* **The SSA guidelines are in the final stage of preparation, having been circulated throughout the organization for comments in the last quarter of 2004, with expected issuance in the first quarter of 2005.**

Paragraph 371

97. *Recommendation.* The Board recommends that UNDP expedite its follow-up of the outstanding response with the United Nations Office for Legal Affairs (OLA) and intensify its efforts to finalize the outstanding reimbursement.

98. *UNDP response.* UNDP is following up with OLA as well as directly with the United Nations Children's Fund (UNICEF) with a view to settling this long-outstanding dispute.

99. *Update.* After further negotiations between UNICEF and UNDP, UNICEF has agreed to pay the full amount outstanding.

Paragraph 379

100. *Recommendation.* UNDP agreed with the Board recommendation that it, in conjunction with UNFPA and UNOPS, intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.

101. *UNDP response.* The fraud policy statement has been completed and will be released by end of November 2004. The timetable for the remaining actions within the fraud prevention strategy is being finalized by the inter-agency group during the third quarter 2004 for implementation in 2004-2005. The Directors, OAPR and OLPS, are jointly responsible for this activity.

102. *Update.* The fraud policy statement has been completed and is awaiting issuance. A vendor has been selected, through a competitive process, to manage and administer an ethics hotline. The hotline is scheduled to become operational by February 2005.